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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

VENDA VO, INC.,
Plaintiff,
v.
PRICE F(X) AG, et al.,
Defendants.

Case No. [17-cv-06930-RS](#)

**ORDER DENYING MOTION TO
DISMISS UNDER ALICE**

I. INTRODUCTION

This action includes claims for alleged infringement of five United States patents held by Plaintiff Vendavo, Inc. Defendants are Price f(x) AG, a German company, and its wholly owned United States subsidiary, Defendant Price f(x), Inc., which serves as its marketing and sales arm in this country. Vendavo first accomplished service of summons and complaint on Price f(x), Inc., which earlier this year brought a motion to dismiss, based on various alleged pleading deficiencies. The motion included a challenge to the patent claims under *Alice Corp. Pty. Ltd. v. CLS Bank, Int'l*, 134 S. Ct. 2347 (2014). Although the motion was granted in part, the *Alice* arguments were rejected because the state of the record and the limited briefing devoted to those issues precluded adequate analysis. While Pf (x), Inc. was not barred from renewing the *Alice* challenge in any motion to dismiss an amended complaint, it was cautioned against doing so unless it could “provide a more robust analysis of all the pertinent issues within the confines of such a motion.”

1 In response to the amended complaint, Price f(x) AG, and Price f(x), Inc. (collectively
2 “PFX”), now jointly move to dismiss on *Alice* grounds. The motion does not include any other
3 challenges to the pleading, thereby permitting a more thorough discussion of patentability than in
4 the prior motion.¹ Nevertheless, PFX still has not made a showing to warrant dismissal at this
5 stage, and the motion will be denied.

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7 II. DISCUSSION

8 1. Scope of motion

9 There are five asserted patents. PFX’s motion is directed at claim 1 of each. In opposition
10 to the *Alice* prong of the prior motion, Vendavo argued the motion could not succeed unless PFX
11 addressed every possible limitation and showed that all 99 claims in the five patents in suit fail
12 both steps of the *Alice* test. The order rejected that contention, stating: “Price f(x) need only
13 address the five asserted claims.” That language, on which PFX now seizes, was not precise.
14 Both the original and amended complaint employ the common practice of alleging infringement of
15 “one or more claims of the [number] patent, including but not limited to claim [number].” While
16 the complaint only specifically identifies claim 1 of each patent as infringed, the “including but
17 not limited to” language is sufficient to put other claims at issue, at least potentially.

18 Because PFX brought this motion prior to the time infringement contentions were due, it
19 could not have known which claims Vendavo intended to assert. Vendavo’s opposition brief now
20 identifies a handful of specific additional claims it believes are infringed.² While PFX complains
21 that Vendavo should not be permitted to oppose the motion to dismiss by relying on claims not
22 expressly pleaded in the complaint, it has not shown that a plaintiff loses the opportunity to assert
23 additional patent claims if the complaint specifically identifies one, but not the others.

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25 ¹ PFX brought a separate motion to dismiss on *forum non conveniens* grounds, which has been
denied by a prior order.

26 ² This contrasts with Vendavo’s opposition to the prior motion where it argued PFX was obliged
27 to address all 99 claims.

1 That said, the remedy for PFX’s failure to address any additional claims Vendavo may be
2 pursuing would not be simply to deny the motion. Rather, if dismissal under *Alice* were otherwise
3 warranted on claim 1 of any of the patents, such a ruling could and would issue, without prejudice
4 to a subsequent determination as to whether or not any additional claims of the same patent fail for
5 the same reasons. *See IPA Techs., Inc. v. Amazon.com, Inc.*, 307 F. Supp. 3d 356 (D. Del. 2018)
6 (order expressly limited to “whether claim 1 of each asserted patent is patentable under § 101,”
7 where “briefing insufficient to support a determination that claim 1 of each asserted patent is
8 representative of all remaining claims in each asserted patent.”)

9

10 2. Prosecution history

11 The gravamen of PFX’s argument is that the five patent claims represent nothing more
12 than mathematical formulas and algorithms, implemented on generic computer processors. PFX
13 places great weight on the fact that the claims were initially rejected under Section 101, and then
14 allowed (in a pre-*Alice* era) only after language was added expressly calling for computerized
15 implementation of the claimed methods. In opposition to the prior motion, Vendavo responded
16 with a somewhat conclusory assertion that the rejections were simply “irrelevant under the current
17 § 101 framework.”

18 Vendavo now explains with greater clarity that it believes the issue faced during
19 prosecution—resolved by adding specific references to computer implementation—related to
20 satisfying the “machine-or-transformation test,” which required claims either to be tied to a
21 particular machine or apparatus, or to transform a particular article into a different state or thing.
22 The Supreme Court has since held patentability cannot be determined exclusively under that test.
23 *Bilski v. Kappos*, 561 U.S. 593, 604, 130 S. Ct. 3218, 3227 (2010) (“the machine-or-
24 transformation test is a useful and important clue, an investigative tool, for determining whether
25 some claimed inventions are processes under § 101. The machine-or-transformation test is not the
26 sole test for deciding whether an invention is a patent-eligible ‘process.’”) Thus, Vendavo
27 contends, the prosecution history is not instructive, much less dispositive, as the addition of
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1 generic computer processors to the claims-in-suit was not made to address an *Alice* concern that
2 the patents would otherwise be directed only at “abstract ideas.”³

3 Vendavo is correct that the prosecution history does not show the precise issues implicated
4 by *Alice* were expressly considered and then resolved incorrectly when the claims were allowed.
5 Vendavo is also correct that while adding a generic processor will not save an otherwise abstract
6 claim, including a processor to a claim that already satisfies section 101 does not somehow
7 destroy patentability. As such, it is not possible to conclude that the claims necessarily fail under
8 *Alice* just because they were only allowed after generic computer elements were included in some
9 of the claims-in-suit.

10 In any event, the machine-or-transformation test relates to the same underlying concern
11 that abstract ideas cannot be patented. That it was an issue during the prosecution of four of the
12 patents-in-suit reflects the fact that there is a serious concern, at a minimum, that at least some of
13 the claims may not ultimately pass muster under *Alice*.

14
15 3. The patents

16 Software-related patents are valid when they are “directed to . . . specific improvements in
17 computer technology.” *BASCOM Glob. Internet Servs., Inc. v. AT&T Mobility LLC*, 827 F.3d
18 1341, 1348 (Fed. Cir. 2016). Such a conclusion can be drawn under either step of the *Alice*
19 framework. *Id.* For example, under step one, the court must “look to whether the claims . . . focus
20 on a specific means or method that improves the relevant technology or are instead directed to a
21 result or effect that itself is the abstract idea and merely invoke generic processes and machinery.”
22 *McRO, Inc. v. Bandai Namco Games Am. Inc.*, 837 F.3d 1299, 1314 (Fed. Cir. 2016). For other
23 inventions whose “basic thrust might more easily be understood as directed to an abstract idea” at
24 step one, “under step two of the *Alice* analysis, it might become clear that the specific

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26 ³ Vendavo also points out that one of the patents in suit was not ever rejected under section 101.
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1 improvements in the recited computer technology go beyond ‘well-understood, routine,
2 conventional activit[ies]’ and render the invention patent-eligible.” *BASCOM*, 827 F.3d at 1348
3 (quoting *Alice*, 134 S. Ct. at 2359).

4 The dispute in this case is, at its core, simple. Are the claims nothing more than algorithms
5 and formulas implemented on a generic computer, as PFX contends, or do the patents describe
6 “specific improvements in computer technology,” as Vendavo insists, which can only be
7 characterized as “abstract ideas” by over-generalizing? *See Alice*, 134 S.Ct. at 2354 (cautioning
8 that at some level, “all inventions . . . embody, use, reflect, rest upon, or apply laws of nature,
9 natural phenomena, or abstract ideas.”).

10 *U.S. Patent No. 7,308,421* is entitled “System and Method for Grouping Products in a
11 Catalog” and discloses application of different types of pricing rules to a product in order to
12 prepare a price quote. Vendavo asserts prior art electronic pricing systems were “unsatisfactory”
13 because “[t]he price rules for products offered in electronic pricing systems must be manually
14 adjusted each time the vendor wants to alter a price rule or alter the identity of the products to
15 which the price rule applies.” To address this problem, the ’421 patent discloses “dynamic
16 collections,” a group of products based on a “dynamic selection rule,” to which “price rules” are
17 applied. The specification offers examples of these rules including ones that would apply to
18 products exceeding a certain inventory level, top selling products, or “midnight special” products.
19 The patent asserts use of dynamic collections avoids the need for manual adjustments whenever a
20 product is added to or removed from a group, and thereby offering a significant improvement over
21 prior art systems.

22 *U.S. Patent No. 8,396,814* is entitled, “Systems and Methods for Index-Based Pricing in a
23 Price Management System” and describes “a flexible pricing method for providing pricing
24 adjustments for a product in a deal in response to price variations in selected indexes.” Vendavo
25 contends prior art processes for incorporating index-based prices were “complicated and
26 cumbersome and, as such not conducive to efficient deal negotiation.” The method of the ’814
27 patent monitors an index for changes and automatically re-prices all deals that include a product
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1 tied to that index. A user purportedly is thus able to “incorporat[e] index-based pricing terms into
2 deals in a manner guaranteeing their effectiveness.”

3 *U.S. Patent No. 7,912,792* discusses a then-existing need for “pricing models” in view of
4 the data “accessibility” and “volume” issues surrounding “enterprise pricing environments.” In
5 view of these data issues, the ’792 patent purports to disclose methods of “displaying and using
6 predictive structured data,” integrating it into “business policies such as pricing guidance and
7 product configuration suggestions,” and “deploying those policies.”

8 Vendavo characterizes the system of the ’792 patent as providing a simply-presented
9 guidance price that can be applied for products on a system-wide basis, while also providing an
10 option to apply instead a specified override price. The system also flags whether that override
11 price would eliminate the profit margin on a given product.

12 *U.S. Patent No. 8,412,598* is directed to an “improved causality analyzer.” It purportedly
13 permits changes in revenue or margin to be identified as resulting from factors such as changes in
14 product pricing, volume sold, product mix sold, costs, and other matters.

15 *U.S. Patent No. 7,640,198* claims an improved system for displaying aggregated index
16 data. In prior art systems, indexes purportedly were only indicators of past performance and
17 generally could not be used to compare real-time data changes. In addition, Vendavo contends
18 such prior art indexes tended to aggregate data in ways that made it difficult to examine details
19 such as individual transactions. The ’198 patent discloses a claimed improvement by generating an
20 index calculation in response to real-time data changes. The system purportedly allows extraction
21 and manipulation of the underlying data, and novel ways to display it.

22 As reflected in these descriptions of the patents, each involves calculations, data
23 manipulation, and algorithms. Relying heavily on *McRO, supra*, 837 F.3d 1299, Vendavo insists
24 they nonetheless satisfy the criteria for patentability because the claims are directed at “specific
25 rules” that purportedly “achieve an improved technological result.” As PFX points out, *McRO*
26 presents a more clear case for patent eligibility, because there the rules and algorithms were
27 directed at improving computer animation, a process readily characterized as technological. Here,
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1 in contrast, PFX raises a serious argument that “the innovative aspect of the claimed invention is
2 an entrepreneurial rather than a technological one,” which may ultimately require a conclusion it is
3 patent ineligible. *See Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709, 722 (Fed. Cir. 2014)
4 (Mayer, J., concurring).

5 Nevertheless, at least at this juncture a determination that one or more of the claims
6 addressed by the motion fail under Section 101 remains premature. *McRO* teaches there is a
7 distinction using a “computer as a tool to automate conventional activity,” and “the automatic use
8 of rules of a particular type.” 837 F.3d at 1314. Where the computerized process described in the
9 claims substantively differs from previously employed processes—beyond the mere fact of
10 computerization—it may be patent eligible. *See id.* at 1314 (“While the rules are embodied in
11 computer software that is processed by general-purpose computers, Defendants provided no
12 evidence that the process previously used by animators is the same as the process required by the
13 claims.”) Here, the evidence and arguments are insufficient to permit a dispositive finding as to
14 whether the methods described in any or all of the claims presently at issue go “beyond merely
15 organizing [existing] information into a new form or carrying out a fundamental economic
16 practice.” *Id.* at 1315 (citation omitted).⁴ Accordingly, the motion to dismiss must be denied.

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18 **III. CONCLUSION**

19 The motion to dismiss under *Alice* is denied, without prejudice to a future determination
20 that one or more of the claims-in-suit are directed at unpatentable subject matter.

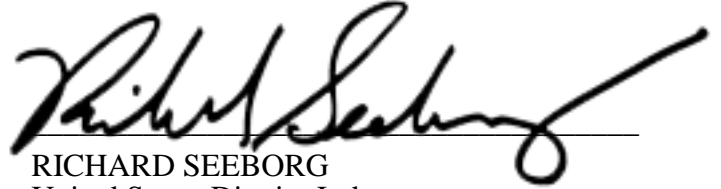
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26 ⁴ Furthermore, as *McRO* observes, “[t]he concern underlying the exceptions to § 101 is not
27 tangibility, but preemption.” *Id.* The parties have given short shrift to whether these claims
28 present a preemption issue or not.

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IT IS SO ORDERED.

Dated: October 22, 2018



RICHARD SEEBORG
United States District Judge